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Financial Management

LEASE VERSUS BUY ANALYSIS

COMPLIANCE WITH THIS PUBLICATION IS MANDATORY

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This instruction implements AFPD 65-5, Cost and Economics. This instruction assigns responsibilities and procedures for Lease Versus Buy Analysis of requirements to lease vehicles, reproduction and printing equipment, word processing equipment, telephone and telecommunication equipment, medical equipment, security equipment, safety equipment, appliances (televisions, clothes washers and dryers, etc.), mail metering equipment, music cassettes, packaging equipment and industrial equipment. It applies to Ogden Air Logistics Center (OO-ALC), 75 Air Base Wing (75 ABW), and tenants.

SUMMARY OF REVISIONS

This publication is revised to change paragraphs 1.3. and 2.2.1, time requirement of 62 days to 60 days. A (|) indicates revisions from the previous edition.

1. POLICY:

- 1.1. The Air Force recommends the purchase of equipment over leasing or renting because it is generally less costly.
- 1.2. However, there are times when leasing or renting may have advantages, for example, when:
 - 1.2.1. Equipment is needed only for a short period of time.
 - 1.2.2. An evaluation period is needed to find out whether the equipment is properly suited for its intended use.
 - 1.2.3. Technology is changing so rapidly that the model will be obsolete before the equipment can be fully amortized.
 - 1.2.4. The equipment is extremely expensive.

1.2.5. The equipment is unavailable for purchase.

1.2.6. The equipment is required but purchase funds are unavailable.

1.3. Validate that a requirement exists for the proposed equipment. Before equipment is leased, an OO-ALC Form 16, Lease Versus Buy Analysis must be completed. OO-ALC Form 16 will accompany all requests, except for those with a requirement of less than or equal to 60 days where no future need exists for this or similar equipment. OO-ALC Form 16 will be completed when initiating, reviewing or extending a lease or rental contract. OO-ALC Form 16 will accompany the request (AF Form 9, Request for Purchase; AF Form 601, Equipment Action Request; etc.).

1.4. Complete OO-ALC Form 16 for any lease of one or more assets that has a total fair market value exceeding \$1 million according to the Office of Management and Budget (OMB) Circular Number A-104 and not this instruction.

2. RESPONSIBILITIES:

2.1. Cost Analysis Team in the Appropriated Funds Management Branch (OO-ALC/OO-ALC/FMBA) will:

2.1.1. Develop and revise, as necessary, the procedures and format for accomplishing Lease Versus Buy Analysis.

2.1.2. Upon request, provide assistance to base personnel in accomplishing Lease Versus Buy Analysis.

2.1.3. Provide assistance, upon request, to Operational Contracting Division (OO-ALC/PKO) in reviewing OO-ALC Form 16

2.1.4. Verify OO-ALC Form 16 for lease requirements whose total monthly lease cost (monthly lease cost plus maintenance cost) exceeds \$500.

2.2. OO-ALC/PKO will:

2.2.1. Return any arriving purchase request (PR) package for a lease greater than 60 days when such PR is not accompanied by OO-ALC Form 16.

2.2.2. Review all OO-ALC Forms 16 to ensure that they are complete and accomplished in accordance with this instruction. Questions concerning the quality and application of the Lease Versus Buy Analysis should be addressed to OO-ALC/FMBA.

2.2.3. Maintain OO-ALC Form 16 on file with the lease request.

2.3. The appropriate office of primary responsibility

(OPR) must confirm that a valid requirement exists for the equipment. Listed below are types of equipment and their respective approval offices.

2.3.1. Vehicles: Transportation Division (75 ABW/LGT) or 75 Range Squadron Commander (75 RANS/CC) for Utah Test and Training Range (UTTR).

2.3.2. Reproduction and Printing: Copier Management (75 MSS/IMC).

2.3.3. Word Processing: Support Flight (75 CS/SCR).

2.3.4. Telephone and Telecommunication: Base Staff Communications Officer (75 CS).

2.3.5. Medical: Medical Logistics Management.

2.3.6. Security: Administration and Reports Flight (75 SPS/SPA).

2.3.7. Safety: Ground Safety Division (OO-ALC/SEG).

2.4. Organizations or units requesting the leasing of equipment covered by this instruction will prepare an OO-ALC Form 16, for each request to initiate, renew, or extend a lease. Organizations or units requesting the leasing of equipment must accomplish and document a safety compliance assessment (MIL STD 882B, Task 210) to verify compliance with appropriate military, federal, national and industry codes, and to evaluate the safety risk being assumed prior to operation of the equipment.

2.5. Unit commanders, directors and chiefs of staff offices act as the approval requester. It is their responsibility to ensure the leasing of the equipment is in the best interest of the Air Force. This approval authority cannot be delegated below division chief or squadron commander level.

3. PROCEDURES:

3.1. Organizations or units having a requirement to initiate, renew, or extend a lease for equipment covered by this instruction must justify the leasing of

the equipment with an OO-ALC Form 16. Attachment 1 provides detailed guidance on how to complete OO-ALC Form 16.

3.2. The OO-ALC Form 16 must be approved by the appropriate authority (see paragraph 2.5.) before being released with the lease request for processing. If the total monthly lease cost (monthly lease cost plus maintenance cost) exceeds \$500, the OO-ALC Form 16, will be verified by OO-ALC/FMBA prior to release of lease request and Lease Versus Buy Analysis for normal lease processing.

3.3. Review actions of 75 ABW/LGT, 75 SPS/SPA, 75 MSS/IMC, 75 CS, 75 SPS/SPA, OO-ALC/SEG, and OO-ALC/PKO on Lease Versus Buy Analysis that are accomplished during the normal processing of lease request.

3.4. The completed OO-ALC Form 16 will be included with the lease request (AF Form 9, AF Form 601, and so forth) when the lease request is forwarded through channels for processing.

4. REFERENCES:

4.1. AFI 37-162, Managing the Processes of Printing, Duplicating, and Copying.

4.2. AFMAN 64-108, Service Contracts.

4.3. AFI 24-301, Vehicle Operations.

4.4. AFI 65-503, US Air Force Cost and Planning Factors.

4.5. AFMAN 65-506, Economic Analysis.

4.6. AFMCI 21-109, Support and Industrial Operations Depot Facilities and Equipment/

4.7. OMB Circular A-104 (located at OO-ALC/OO-ALC/FMBA).

5. **FORMS:** This instruction directs the use of OO-ALC Form 16, Lease Versus Buy Analysis.

GENE L. HATHENBRUCK

Director, Financial Mgmt Directorate & Comptroller

Attachment 1

**INSTRUCTIONS FOR COMPLETION OF OO-ALC FORM 16, LEASE VERSUS
BUY ANALYSIS**

PART I. BASIC INFORMATION:

Block 1. Equipment Type. Enter the kind of equipment under consideration (that is, reproduction equipment, word processor, office equipment, vehicle or industrial equipment).

Block 2. Manufacturer. Enter the name of the manufacturer of equipment being considered.

Block 3. Model. Enter the model number of equipment under consideration.

Block 4. Economic Life. Enter the approximate period of time, in months, that the considered equipment will be useful.

Block 5. Lease Requirement. Enter the length of time, in months, that the equipment is required (period of time that equipment needs to be leased). If unknown, use the estimated economic life of equipment, entered in Block 4. Document in Tab 1.

Block 6. Originator. Enter the name of the individual who is performing the Lease Versus Buy Analysis.

Block 7. Office Symbol. Enter the office symbol of the individual who is performing the Lease Versus Buy Analysis.

Block 8. Duty Phone. Enter the telephone number of the individual who is performing the Lease Versus Buy Analysis.

Block 9. Disposition If Purchased. Determine what will happen to the equipment at the end of the base requirement period. If the equipment will be used by another United States Air Force function or government agency, check the box for new mission and proceed to Block 10. If the government will dispose of the equipment at the end of the lease requirement period, check the box for Reutilization and marketing and proceed to Block 13. Document in Tab 2.

PART II. ECONOMIC COMPUTATIONS:

Section A. Disposition.

Block 10. Acquisition Cost. Enter the net purchase cost of the equipment plus necessary accessories. Exclude installation costs, transportation costs, etc.

Block 11. Salvage Percentage. Enter the amount of life remaining, in months (expressed as percentage of total life), for the equipment at the end of the lease requirement period.

Block 12. Salvage Value. Enter the dollar amount that results from multiplying Block 10 by Block 11.

Section B. Purchase Cost:

Block 13. Total Purchase Price. Enter the total purchase price of the equipment under consideration. This amount should include, but not be limited to, the following: Acquisition Cost plus cost of installation and transportation. Document in Tab 3.

Block 14. Purchase Option Credit. Enter the total amount of credits applicable to the purchase (payment discount, trade in allowance, accrued lease credits, special credits, and so forth).

Block 15. Net Purchase Price. Enter the dollar amount that results from subtracting Block 14 from Block 13.

Block 16. Month One Discount Rate. Enter the discount factor for the first month which is derived from the current interest rate of treasury securities and may be obtained from OO-ALC/FMBA.

Block 17. Discounted Purchase Price. Enter the dollar amount that results from multiplying Block 15 by Block 16.

Block 18. Monthly Maintenance Cost. Enter the cost to be incurred each month to have the equipment serviced under a maintenance agreement (or monthly in-house cost if applicable).

Block 19. Lease Requirement Discount Rate. Enter the discount rate which is derived from the current interest rate of treasury securities and may be obtained from OO-ALC/FMBA.

Block 20. Discounted Maintenance Cost. Enter the dollar amount that results from multiplying Block 18 and Block 19.

Block 21. Warranty Period. Enter the period, in months, that the manufacturer will be responsible for all repairs or replacement of defective parts.

Block 22. Warranty Discount Rate. Enter the discount rate which is derived from the current interest rate of treasury securities and may be obtained from OO-ALC/FMBA.

Block 23. Discounted Warranty Credit. Enter the dollar amount that results from multiplying Block 18 by Block 22.

Block 24. Terminal Value. If new mission was checked in Block 9, enter the dollar amount from Block 12. If Reutilization and marketing was checked, complete Tab 4 and enter the resulting dollar amount in this Block.

Block 25. Terminal Value Discount Rate. Enter the discount rate which is derived from the current interest of treasury securities and may be obtained from OO-ALC/FMBA.

Block 26. Discounted Terminal Value. Enter the dollar amount that results from multiplying Block 24 and Block 25.

Block 27. Life Cycle Purchase Cost. Enter the dollar amount that results from the following computation: Add Block 17 to Block 20, subtract Block 23 and subtract Block 26.

Block 28. Adjustment Requirement Rate. Enter the adjustment requirement rate which is derived from the current interest of treasury securities and may be obtained from OO-ALC/FMBA.

Block 29. Monthly Discounted Purchase Cost. Enter the dollar amount that results from dividing Block 27 by Block 28.

Section C. Lease Cost:

Block 30. Monthly Lease Cost. Enter the monthly cost of renting the equipment under the proposed lease agreement. (Amortize installation or similar costs over the lease requirement period which may be incurred but are not included in the monthly lease cost.) If equipment being leased is subject to Accelerated Cost Recovery System (ACRS) depreciation, then complete Tab 5 and enter the resulting dollar amount in this Block. This cost should match the monthly cost on the completed AF Form 9.

NOTE: For more than one piece of equipment, the total lease cost for all of the equipment should match the monthly cost on the completed AF Form 9.

Block 31. Monthly Maintenance Cost. Enter the cost to be incurred each month to have the equipment serviced under a maintenance agreement (or monthly in-house cost if applicable). If this service is provided under the proposed lease agreement (and included in the monthly lease cost) enter zero.

Block 32. Total Monthly Lease Cost. Enter the dollar amount that results from adding Block 30 to Block 31.

Section D. Comparison:

Block 33. Difference Between Purchase and Lease Costs. Enter the dollar amount obtained by subtracting Block 32 from Block 29. If the amount is positive, then it is economically favorable to lease the equipment, check Block 34. If this amount is negative, then it is economically favorable to purchase the equipment. Check Block 35 if leasing the equipment is considered the best option, although it is economically favorable to purchase the equipment. Check Block 36 if the equipment will be purchased.

PART III. RECOMMENDATION:

Block 34. Request Equipment Be Leased Because It Is More Economical Than Purchase. Check this box it is economically favorable to lease the equipment.

Block 35. Although Economically Favorable to Purchase, Request Equipment Be Leased. Check this box when leasing of the equipment is considered the best option, although it is economically favorable to purchase the equipment. Complete this Block by checking the appropriate boxes A, B, C, or D, and writing any explanation in Block 37, Remarks.

Block 36. Purchase Equipment. Check this Block if equipment will be purchased.

PART IV. ATTACHMENTS - DOCUMENTATION: (Tabs 1, 2, and 3 must accompany all Lease Versus Buy Forms.)

Tab 1. Lease Requirement. This attachment documents Block 5. Briefly explain how the lease requirement period was obtained. Include all assumptions and sources. Document why the need for the piece of equipment will not exceed the lease requirement period.

Tab 2. Equipment Disposition. This attachment documents Block 9. If new mission is checked in Block 9, document what United States Air Force or other government function the equipment will be transferred to. If Reutilization and marketing is checked in Block 9, document government functions contacted who declined a need for the equipment at the end of the lease requirement period (Block 5).

Tab 3. Purchase Price. This attachment documents Block 13. List the equipment's: acquisition cost, cost of accessories, design cost, transportation cost, installation cost, and any other costs. For each cost, specify: item, source, cost, and any assumptions.

Tab 4. Terminal Value. If new mission was checked in Block 9, this tab does not need to be completed. If Reutilization and marketing was checked in Block 9, this Tab is computed to document the terminal value figure placed in Block 24. List the suppliers contacted and their estimated market value of the equipment at the end of its lease requirement period. Document all assumptions used to arrive at the estimated value. Enter this value in Block 24.

Tab 5. Monthly Lease Cost. If the Lessor (i.e., Contractor) cannot use ACRS method of depreciation, this tab does not need to be completed. If the Lessor is able to take ACRS method of depreciation under the current tax laws, then the monthly lease amount is increased by an amount derived from AFI 65-501. For assistance, contact OO-ALC/FMBA. Document all reasons supporting the use of ACRS method of depreciation. Enter the total amount of the monthly lease cost, which includes the amount attributable to ACRS method of depreciation, in Block 30.

PART V. VERIFICATION:

Block 38. Office Symbol. Enter office symbols of agencies required to validate the Lease Versus Buy Analysis or validate that a requirement exists for the equipment (75 MSS/IMC, 75 CS/SCS OO-ALC/PKO, 75 ABW/LGT, etc.).

Block 39. Type Name and Title. Enter the names and titles of coordinating authorities.

Block 40. Signature. Obtain the signatures of the coordinating authorities.

Block 41. Date. Enter the dates when approved by the coordinating authorities.

PART VI. APPROVAL REQUESTER:

Block 42. Type Name and Title. Enter the name and title of the authority approving the lease of the equipment. The approving authority is the director, commander, or chief of staff office of the organization requesting the lease of equipment. Signature of approving authority is required before lease request can be processed. If the dollar amount in Block 32 is over \$500, the OO-ALC Form 16 will be verified by OO-ALC/FMBA before the lease request can be processed.

Block 43. Signature of approval requester. Enter the signature of the individual approving the request.

Block 44. Date. Enter the date the form was signed by the approval requester.